ComEd Exhibit ___

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	)	
	)	
Petition for declaration of service currently	)	
provided under Rate 6L to 3 MW and greater	)	
customers as a competitive service pursuant to	)	Docket No. 02-0479
Section 16-113 of the Public Utilities Act and	)	
approval of related tariff amendments.	)	

Rebuttal Testimony of

WILLIAM P. McNEIL

Director of Strategic Planning
Exelon Energy Delivery Services
Commonwealth Edison Company

and

JENNIFER T. STERLING

Director of Tariff Administration
Transmission Policy Department
Commonwealth Edison Company

September 2002

<u>Witness</u>

Q. Please state your name and business address.

A. William P. McNeil and Jennifer T. Sterling. Mr. McNeil's business address is 227 W. Monroe, 9th floor, Chicago IL 60606. Ms. Sterling's business address is now 440 South LaSalle, Suite 3300, Chicago, IL 60605.

Q. Are you the same William P. McNeil and Jennifer T. Sterling who previously submitted direct testimony in this docket?

A. Yes we are.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of our rebuttal testimony is to respond to a range of issues concerning competition in the energy market. These include the claim made by various parties that it is "the worst of times" to declare Rate 6L - Large General Service ("Rate 6L") service competitive for the 3MW and greater customer segment, the argument that competition in wholesale transactions is not sufficiently robust, various arguments related to Commonwealth Edison Company's ("ComEd's") Purchase Power Option ("PPO") and Market Value Index ("MVI") methodology, and transmission issues. We explain that many of these concerns are speculative and unsupported by the existing data. Far from being the "worst of times" for granting the requested declaration, conditions are very good for such a declaration.

Q. Why do you believe the timing is right for declaring service competitive to this group of customers?

A. As we described in our direct testimony, there has been tremendous growth in generation resources available to support the competitive market. In ComEd's territory alone, over 8,500 megawatts ("MW") were connected to the grid between 1999 and 2002. An additional 4,300 MWs are expected to come on line over the next two years. Within the region, capacity reserve margins in MAIN are expected to exceed 17% over the next 10 year planning horizon.

The abundance of generation resources both within ComEd's territory as well as within the region makes this an ideal time for customers to benefit from competition. Market prices are currently very low as a result and should remain relatively low for the foreseeable future.

On page 12 of our direct testimony, we illustrated how the availability of supply is expected to exceed demand in ComEd's territory easily out to 2010. This supply position will significantly dampen price volatility and keep market prices low. Mr. Brubaker also acknowledges this by citing an excerpt from the August 2002 edition of Electric Light & Power (p 10) as follows:

> "*The fundamental overbuild led to decreasing pricing volatility and lower overall electricity prices into the future*".

Because of this, customers and suppliers will have access to energy at competitive prices well into the future. We have illustrated these competitive dynamics further in Attachment 1 to our direct testimony.

In suggesting that there may not be sufficient competition in the wholesale segment of the market to support retail competition, the IIEC witnesses and others overly simplify and do not accurately represent how the market works. As is illustrated in Attachment 1 to our testimony, generators compete in the "Battle to Run". In other words, generation owners only make profits when they are running. Real load, even higher load factor load, is served by a mix of generation resources – baseload, intermediate, and peaking. There is a strong economic incentive for base and intermediate generators in particular to search out markets for their power to maximize their production. As ComEd's retail load obligation decreases due to increasing market penetration by Retail Electric Suppliers ("RESs"), the generation formerly servicing that load will seek new markets, either within or outside ComEd's control Area. This incentive, particularly in light of the extent to which supply exceeds demand, creates a strong competitive dynamic.

Q. On page 29 of Dr. Howard Haas's testimony, he describes his concern about the adequacy of available transmission capacity. Please comment.

A. First, we think it is important to keep in mind the amount of incremental load of the customers 3 MW or greater which remain on Rate 6L. As we stated in our previous testimony, this load is approximately 900 MW. So the transmission adequacy analysis should be viewed in the context of that amount of potential load (within some reasonable bandwidth). We also think that transmission adequacy cannot be viewed in isolation of *the status of the generation market, since import capability is directly a function of the* output of the generation resources within the control area at any given point in time.

As noted above, generators compete throughout the region to maximize their production. Regardless of where the power is ultimately sold, as long as the generator is running, its output becomes part of the control area balance. If the power is being sold to a load serving entity within the control area (i.e., a RES), transmission import capability to serve that retail load is not required. If the power is being exported outside the control area, an equal amount of transmission import capability generally becomes available to supply the load.

These three points all indicate the adequacy of available transmission capacity in the context of ComEd's Petition: 1) transmission adequacy is directly impacted by the status of generation within the control area, 2) the generators are constantly under an incentive to run (down to their marginal cost), and 3) the amount of incremental load migrating from bundled service to delivery services is less than 1,000 MW.

Q. In his testimony, Dr. Haas states that 'Of the 4700 MW of simultaneous import capacity into ComEd's system, a significant portion is not available, on a firm basis to supply those customers 3 MW and larger with power and energy from outside ComEd's service territory.' (Haas testimony, lines 659-662). Is this true?

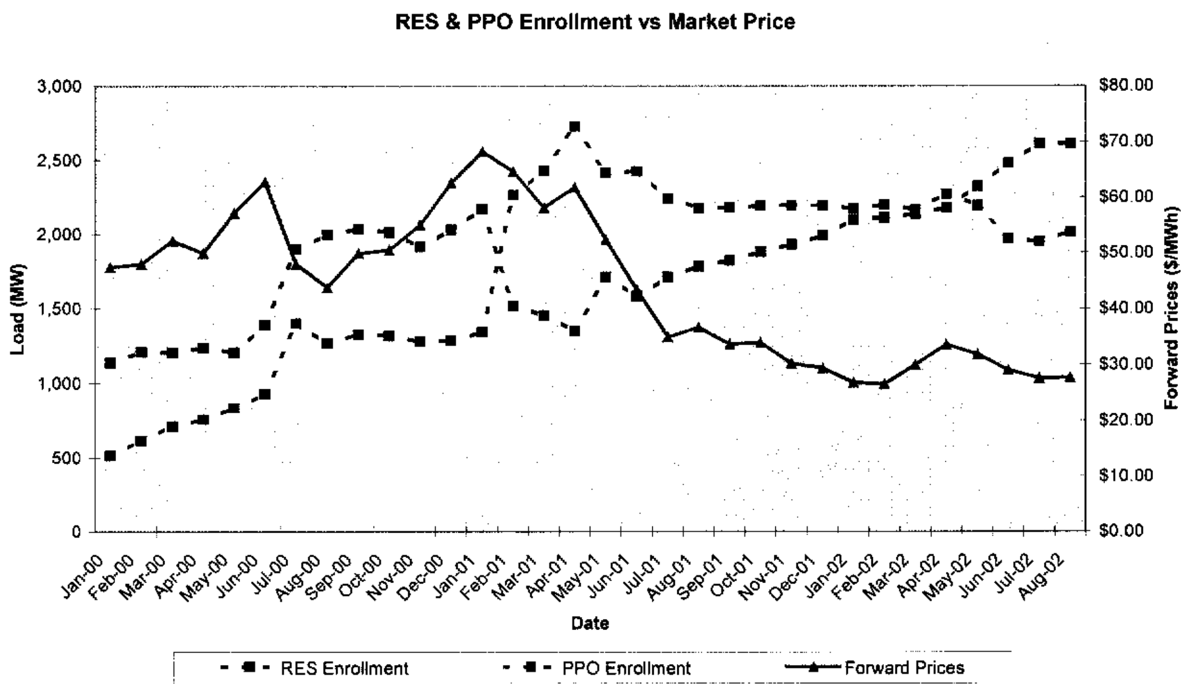
A. No. In fact, in the Simultaneous Import Capability study referenced by Dr. Haas, ComEd clarifies that the 4,700 MW value as referenced in the McNeil and Sterling direct testimony (on page 15) is the First Contingency Total Transfer Capability. However, the First Contingency Incremental Transfer Capability, or the capability that is available over and above committed uses, is 7,900 MW, far exceeds the total load of the 3 MW customers. ComEd points out that this level of transfer capability is contingent upon a net base transfer level of 3,200 MW of export counterflow transactions. Furthermore, as pointed out in the McNeil and Sterling direct testimony (lines 238-240), simultaneous import capability gives a general idea of how much load in ComEd's territory can be served from the sources outside the territory and is not a substitute for an available transfer. Dr. Haas' conclusions are contradicted by the fact that at the time of ComEd's peak this year, ComEd's transmission system was delivering 4,000 MW of generation to customers outside the ComEd control area.

Q. Dr. Haas has also stated in his direct testimony that there is not adequate evidence of competition because ComEd and its affiliates have intervened to "prop up" the retailers, and have supplied subsidies to preserve the appearance of continuously available competitive supply options. Do you agree?

A. No. We think it is important to first understand that the availability of the PPO as a supply option for RESs creates a new and unique risk for ComEd and its affiliate supplier. That risk is that RESs can move some or their entire customer portfolio in or out of the load requirement which ComEd must be able to serve. In some cases, RESs have made these decisions to take advantage of arbitrage opportunities between the PPO price and the wholesale market price. In other cases, movement in wholesale market prices was not fully hedged against the PPO price, and therefore obtaining supply through PPO assignment has been a better economic alternative. In either case, large amounts of load can be returned to ComEd's retail supply on short notice. However, the actual customers are not returned to ComEd. They remain customers of the RES, who is purchasing supply on their behalf under ComEd's retail tariffs.

From ComEd's perspective, the decisions regarding how supply is procured for this load are being made entirely in the competitive market. Customers are not making individual decisions to return to retail tariffs, RESs are making business decisions about their sourcing strategy. As we stated in our direct testimony, this does not reflect bad or inappropriate behavior on the part of RESs. To the contrary, it reflects RESs making economic decisions in their own self-interest using all of the tools provided to them under the law.

We have shown in our direct testimony, an example of how supply was shifted significantly to the PPO when market prices were rising. The chart below updates that information through August 2002.



Note that in the February - March time period (when snapshots were being taken) that the forward market price was once again trending upward. Based on prior experience and information being communicated from the RESs, it appeared likely that a large block of load could potentially be returned to PPO supply. This situation necessarily created substantial risks and uncertainty for Exelon Generation, which has the obligation to provide supply for ComEd's full requirements. It is reasonable for a supplier in that position to want to resolve that uncertainty, particularly going into the summer months. Additional charts illustrating how RESs use the PPO rate as a hedge are included in Attachment 2 to this testimony. Given the demonstrated ability of the RESs to manage load in this way, the Illinois Commerce Commission (the "ICC" or the "Commission") should also be very hesitant to adopt the type of monitoring proposal suggested by Dr. O'Connor.

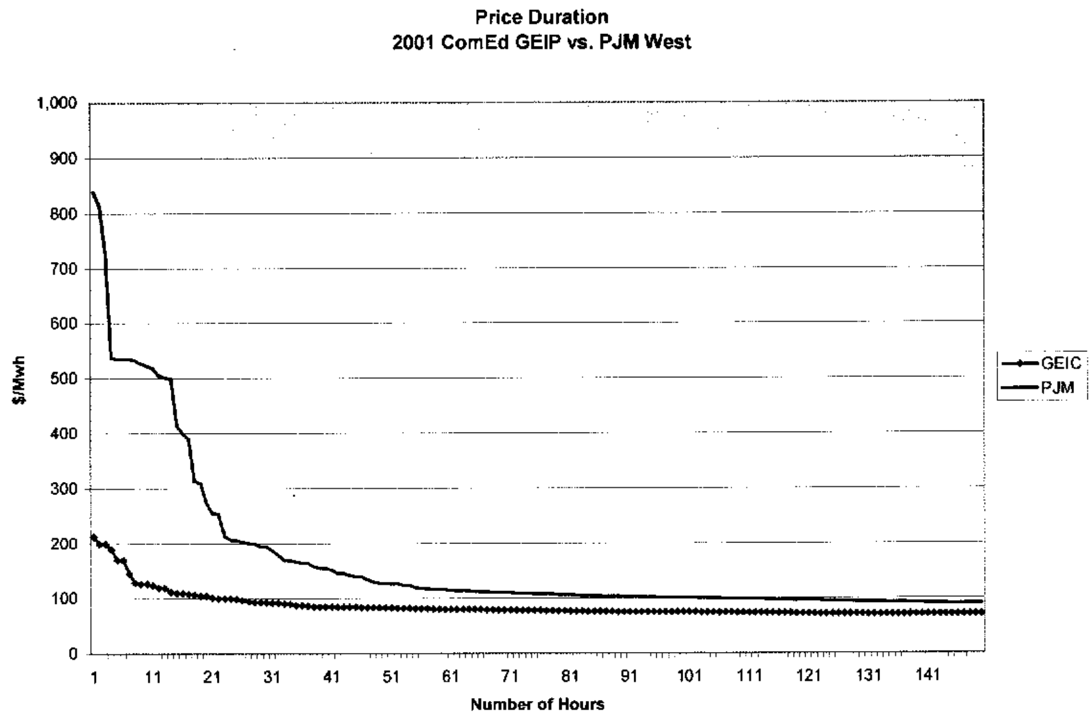
Q. Dr. Haas also mentions (p. 13) that ComEd always faced quantity risk, as have all vertically integrated utilities. Is the supply risk you describe above a risk that ComEd has always faced?

A. No. We believe the quantity risk that Dr. Haas was referring to was the risk associated with weather, load growth, business closings or relocations, or fuel bypass alternatives. Vertically integrated utilities have never had to take the risk of providing wholesale supply to other Retail Suppliers as a free call option.

Q. On page 18 of Dr. Haas's testimony, he describes how customer load deviations create energy imbalances which result in charges under ComEd's Open Access Transmission Tariff ("OATT"). He further goes on to say that under these circumstances, the only options open to such customers are Rate 6L or PPO service – neither of which charge for unexpected imbalances or deviations from day ahead projections of demand. Please comment on this analysis.

A. Dr. Haas is correct in saying that the RESs must submit schedules based on day ahead projections and that to the extent the load they are serving deviates above or below the submitted schedule, energy imbalance service applies under ComEd's OATT. Our concern is that he characterizes this as a more serious problem than we believe it is, and we disagree with his conclusion that these costs are not embedded in either Rate 6L or the PPO.

First, Dr. Haas ignores the fact that RESs can submit changes to their schedules every hour if necessary, up to 20 minutes before the start of the hour. Thus, RESs are able to minimize imbalances between schedules and actual consumption. Second, Dr. Haas mischaracterizes imbalance charges as 'penalties' when in fact, in most cases, the imbalance charge or credit is simply the price of energy supplied or not used. Third, it is important to recognize that energy imbalance "charges" can either be a cost, or a credit. When the RES schedule exceeds their customer's actual load in a given hour, the RES receives a credit for the overscheduled energy at the generation energy imbalance price ("GEIP") for that hour. The opposite is true, and a charge is incurred when the RES has underscheduled. Assuming that the RES ultimately must recover these costs (if they are net positive) from their customers, they must either add a component to their energy price or pass the risk through to the customer directly. In terms of how this impacts the customer's overall economics, we must compare how these charges relate to the Market Value Energy Charges ("MVEC") which is used to determine the market value credit in the customer's CTC. This MVEC is also the PPO price against which RESs must compete. To make this comparison, we have taken hourly data from PJM Interconnection, L.L.C. ("PJM") (the data used in determining the MVEC) and the hourly energy imbalance charges in ComEd's control area for 2001. We have also focused on the hours where price uncertainty and load volatility are at their maximum values (the top 150 hourly observations). This data is shown below:



It is important to note that the PJM data shown is the underlying data used to determine MVEC and thus both the PPO price and the market value credit used in the CTC calculations. The MVEC is calculated using actual ComEd load data (reflecting the customer's real load volatility in each hour) and the real time hourly price in PJM (adjusted for forward price market expectations, basis differential, line losses, and marketing and sales expenses). This data suggests that the market value used in the PPO/MVEC calculation reflect both higher levels of price volatility and higher overall hourly prices than the energy imbalance charges in ComEd. So in the case where the RES load exceeds their schedule, the excess consumption would be subject to an energy imbalance charge which is likely to be lower than the corresponding market value credit provided for that energy in the CTC, or the price embedded in the PPO.

We would also like to illustrate that the PJM prices (adjusted as described above) are the basis for <u>all</u> energy sold to customers under the PPO. To the extent that the market data reflects higher prices and volatility, PPO customers pay for their energy imbalances at the load weighted average price.

Since Rate 6L is a bundled rate, the recovery mechanism is slightly different. Rate 6L was based on a revenue requirement that included the costs that ComEd (as a vertically integrated utility) incurred in serving its customers' load. This includes generation resources with adequate amounts of reserves to serve the maximum expected demand at the time of system peak. Therefore, the costs associated with unexpected load deviations at peak periods were included in the utility revenue requirement, since it was ComEd's obligation to supply to that maximum demand.

Q. Other witnesses suggest that adequate competition cannot occur until ComEd's MVI methodology is fixed. Please comment.

A. We don't believe that the MVI methodology is as flawed as other parties claim. In fact, it was an improvement over the Neutral Fact Finder (" NFF") methodology previously used. We do believe it can use some fine-tuning. That is an issue that we have discussed with a number of parties in workshops over the summer and one that will soon be addressed by the Commission in proceedings scheduled to begin this fall.

Q: Chicago Area Customer Coalition ("CACC") witness Fults and NewEnergy witness O'Connor argue that ComEd MVEC calculations are too low by pointing to other market information. Are their comparisons valid?

A: No they are not. Mr. Fults has attempted to compare electricity prices as quoted in MegaWatt Daily with the MVECs in order to support his contention that the MVECs are too low (p.14). Mr. Fults' analysis is fundamentally flawed in that he compares

MegaWatt Daily prices for delivery of a constant amount of electricity during the peak weekday 16-hour period with some average of the MVEC values. Since MVEC values reflect the value of electricity delivered to customers during all hours, Mr. Fults' analysis is essentially an apples-to-oranges comparison. The inappropriateness of the comparison is magnified by the fact that Mr. Fults' MegaWatt Daily prices refer to delivery during calendar years 2003 and 2004, while the MVECs reflect delivery from June 2002 through May 2003.

Dr. O'Connor states that on April 1, 2002, with the release of the newly calculated MVECs, "MVECs were considerably below market those values [sic] actually prevailing in the market place <u>at the time</u>." (p.13, emphasis added). Dr. O'Connor neglects to mention that prevailing market prices were noticeably lower only weeks earlier, during the time when the MVEC was set. NewEnergy, as well as other RESs, had that market information available to them and had an opportunity to hedge price risk by procuring throughout this lower price period. However, if they chose not to do so, they should not complain if the market moves against them. In any case, in order to make market price movements even more transparent to RESs and their customers, ComEd has discussed providing intermediate MVEC and CTC calculations (the results of which are referred to as "would be MVECs" and corresponding "would be CTCs") during future MVEC snapshot periods.

Q: MidAmerican witnesses Schillinger and NewEnergy witness O'Connor complain that the MVEC calculation results in values that are not "reflective of serving retail load" and "do not adequately account for the freed up value of energy." How do you respond?

A: ComEd disagrees. The existing MVEC methodology calculates the value of the electric commodity freed up when a customer leaves ComEd, as required by Section 16-102 (definition of transition charges) of the Public Utilities Act. Since visible market prices for varying amounts of electricity commensurate with each customer's usage are not available, this methodology utilizes actual wholesale block-trade prices and adjusts these prices to reflect the difference between wholesale prices and the value of the freed-up electricity associated with the customer's usage.

The adjustments are based on actual hourly market price and customer load data in order to reflect forecasted as well as unexpected load and price variations, and the interplay between prices and customer usage. Additional adjustments are made to account for the difference between prices in the wholesale market's "Into Cinergy" hub and the ComEd region, as well as the fact that significant energy losses occur when electricity is delivered to a customer's meter.

ComEd strongly believes that the values that result from the MVEC methodology provide reasonable estimates of the value of the freed up electricity.

Q. Staff witness Haas questions ComEd's commitment to joining PJM (Haas testimony, lines 532-533). Can you respond?

A. ComEd has and is unequivocally committed to joining PJM. In its compliance filing to the Federal Energy Regulatory Commission (FERC) in Dockets EL02-65 and RT01-88 filed on May 28, 2002, ComEd stated that it would join PJM either as a member of an Independent Transmission Company ("ITC") or as a stand-alone member, if the ITC effort were to fail.

Q. Staff witness Haas also states that participation in any Regional Transmission Organization ("RTO") is not binding and thus there are no penalties for a failure to join (Haas testimony, lines 534-538). How do you respond?

A. While it is true that under FERC's Order No. 2000, RTO participation was voluntary, it is clear under FERC's Standard Market Design (SMD) Notice of Proposed Rulemaking (NOPR), that participation in an Independent Transmission Provider ("ITP") will be a requirement. Specifically, in Paragraph 8 of the NOPR, FERC states that 'all transmission owners that have not yet joined an RTO must contract with an independent entity to operate their transmission facilities.' Thus, participation will no longer be voluntary.

Q. IIEC witness Dauphinais raises multiple questions regarding ComEd's RTO selection decision (Dauphinais testimony, pages 24-30). What is your response?

A. In general, Mr. Dauphinais is raising issues that either have been or are best addressed by FERC. In fact, many of the issues that Mr. Dauphinais includes in his testimony, such as RTO configuration, the Midwest Independent System Operator ("MISO"), and the viability of a joint and common MISO/PJM market have already been decided by the FERC. As a participant in the FERC proceedings, IIEC has had ample opportunity to offer its opinion regarding ComEd's RTO choice. These issues are not issues that could be resolved by the Commission.

Q. Speaking of FERC proceedings, Mr. Dauphinais raises many issues regarding FERC's SMD NOPR and theoretical effects on Retail Access in Illinois. (Dauphinais testimony, pages 10-24). Would you please comment?

A. Again, Mr. Dauphinais is providing comments and posing arguments that are more appropriate for FERC's SMD NOPR proceedings. FERC has provided interested parties, such as IIEC and the ICC, an opportunity to submit comments and raise concerns regarding its NOPR. Until a final SMD rule is issued, it is neither necessary nor productive to speculate regarding scenarios that conceivably could arise as a result of the rule.

Q. Both Mr. Dauphinais and Dr. Haas raise the issue of load pockets in their testimonies (Dauphinais testimony, pages 14-16 and Haas testimony, lines 637-656). What is your response?

A. In his testimony, Dr. Haas speculates that when ComEd identified preferred sites for new generation, it is possible that 'ComEd was identifying potential load pockets.' This is untrue. In fact, ComEd was identifying sites where the interconnection of new generation would require minimal transmission upgrades. Rather than identifying sites based on import constraints, ComEd was identifying locations based on a generator's ability to export power from its plant to loads both internal and external to the ComEd service territory.

Mr. Dauphinais provides a definition for a load pocket (page 14, lines 15-17) that he acknowledges that ComEd does not endorse and then proceeds to explain why he feels the ComEd system meets his definition. In defining the entire ComEd service territory as a load pocket, Mr. Dauphinais presents no evidence or data to support his claim other than the notion that because all of ComEd's load cannot be served from external sources, it is a load pocket. In fact, using Mr. Dauphinais' definition, it is safe to say that nearly all of the control areas in the country, including PJM, would be defined as load pockets.

Thus, Mr. Dauphinais' definition makes no sense. Mr. Dauphinais goes on to speculate again, that 'more severe load pockets can exist in particular geographical sections of the ComEd service territory.' Again, this statement is entirely unsupported.

<u>Conclusion</u>

Q: Does this conclude your rebuttal testimony?

A: Yes.

The Competition In Energy Supply

The Competition In Energy Supply

Base Generators

- Highest capital, lowest operating cost
- Designed to continuously run at full output; not suited to follow load
- Generators battle to run 100% of the time

The Competition In Energy Supply

Intermediate Generators

- Higher capital cost and lower operating cost than peak generators
- Serve daily load-following requirements
- Smaller, more responsive than base generators

Base Generators

The Competition In Energy Supply

Intermediate Generators

Peak Generators

- Lowest capital, highest operating cost
- Must be available at times of maximum peaks to capture market opportunity
- Supply highest cost power
- Limited hours of operation per year

Base Generators

The Competition In Energy Supply

Intermediate Generators

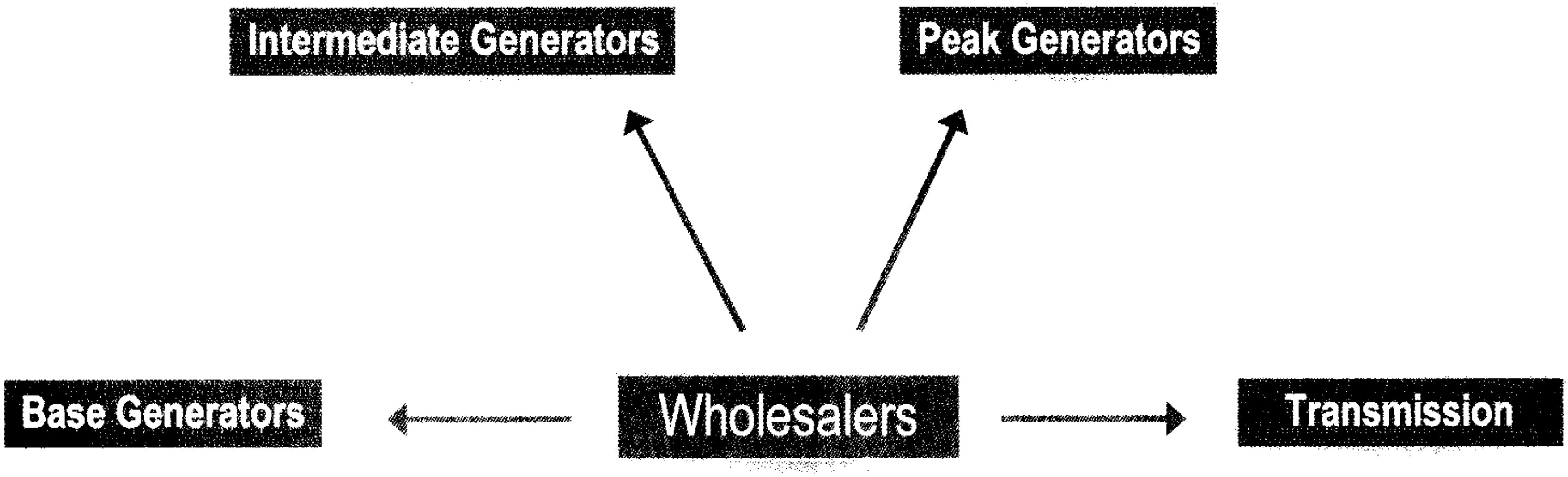
Peak Generators

Base Generators

Transmission

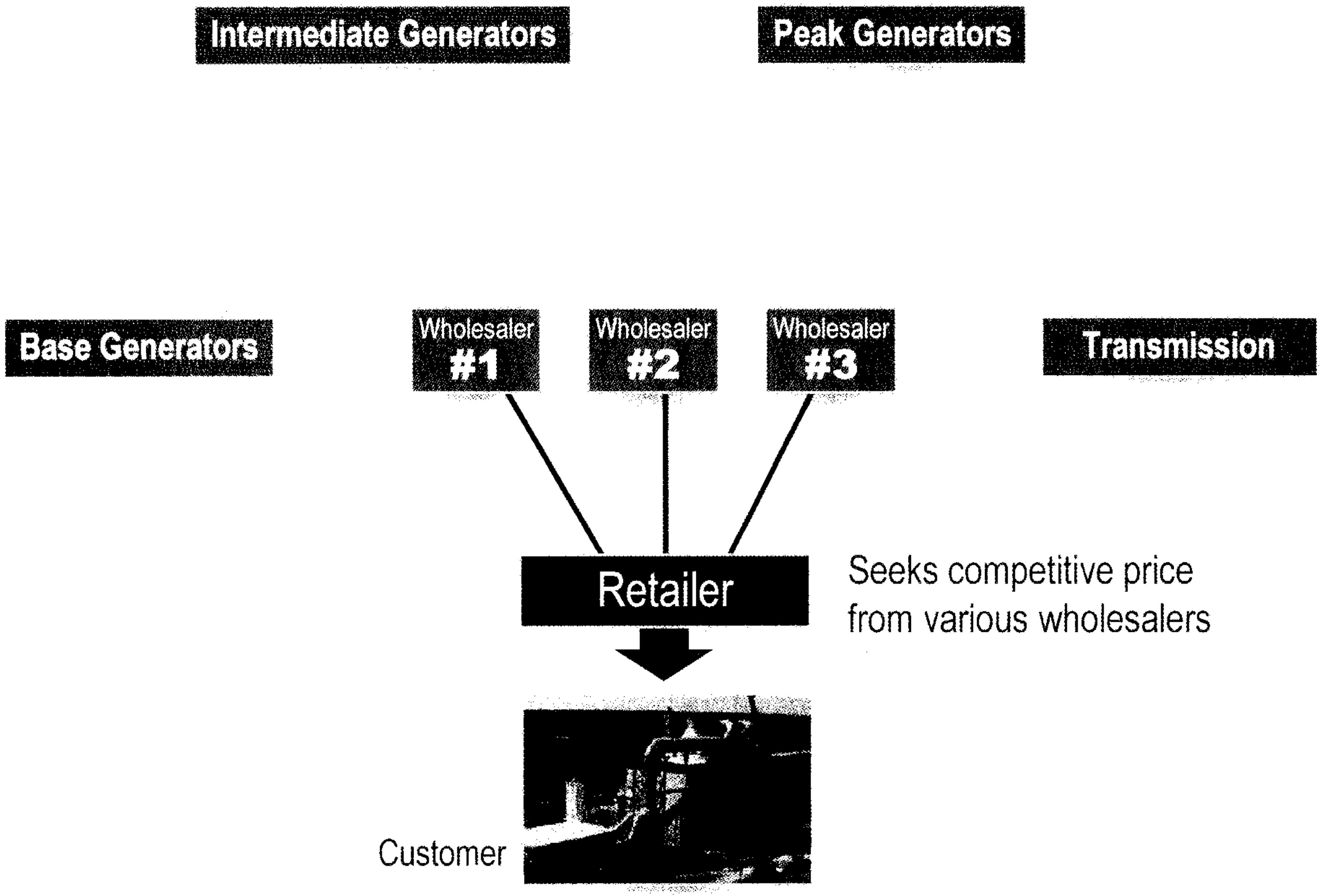
- Manages grid reliability
- Balances bulk power system
- Delivers power from generation to local distribution
- Dispatches generation to facilitate net interchange

The Competition In Energy Supply



- Energy companies that "mix and match" generation from various sources (including their own) to create portfolio which assures supply at best price
- Offer a variety of supply products
- Compete for business from retailers

The Competition In Energy Supply



The Competition In Energy Supply

Example of Competitors

Intermediate Generators

- NRG
- EDISON
- DYNEGY

Peak Generators

- CALPINE
- DYNEGY
- Reliant Energy
- Dominion
  It all starts here
- Allegheny

Base Generators

- Dominion
  It all starts here
- EDISON
- Exelon
- MIDAMERICAN
  ENERGY HOLDINGS COMPANY

Wholesalers

- Dominion
  It all starts here
- SOUTHERN COMPANY
- EDISON
- Duke Energy
- Exelon
- Reliant Energy

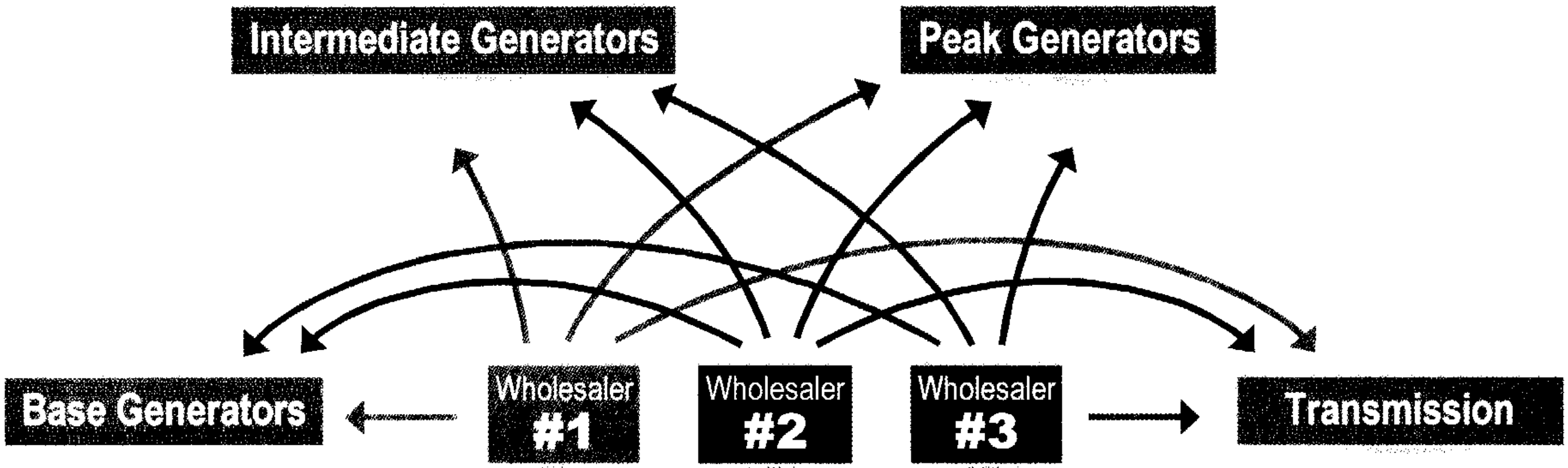
Retailer

- MIDAMERICAN
  ENERGY HOLDINGS COMPANY
- AES NewEnergy
- Green Mountain Energy
- PEOPLES ENERGY

Transmission

- ILLINOIS POWER
  Part of the Dynegy Performance Team
- ComEd
- ATC
- AEP
- PJM

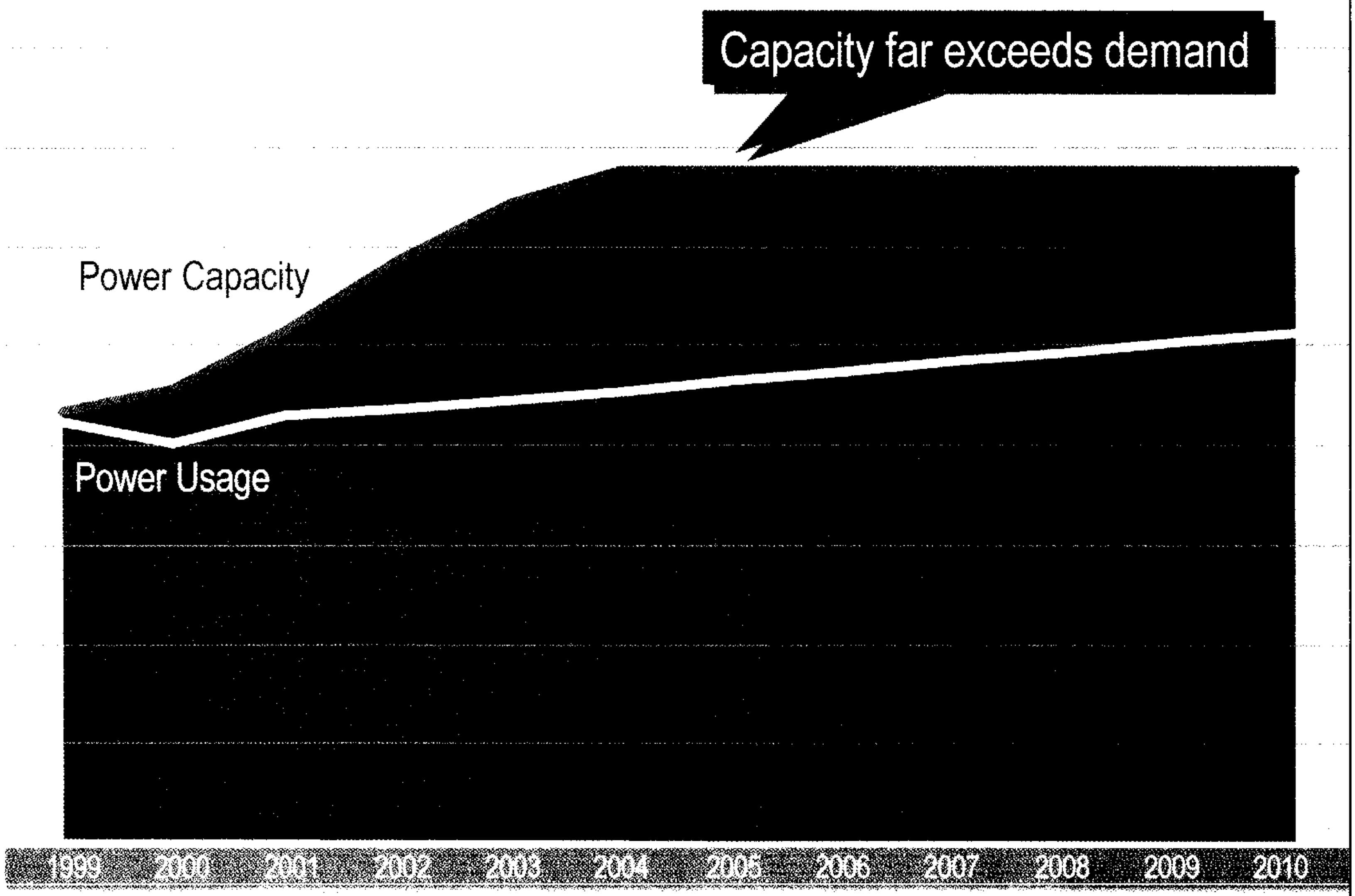
The Competition In Energy Supply



Customer

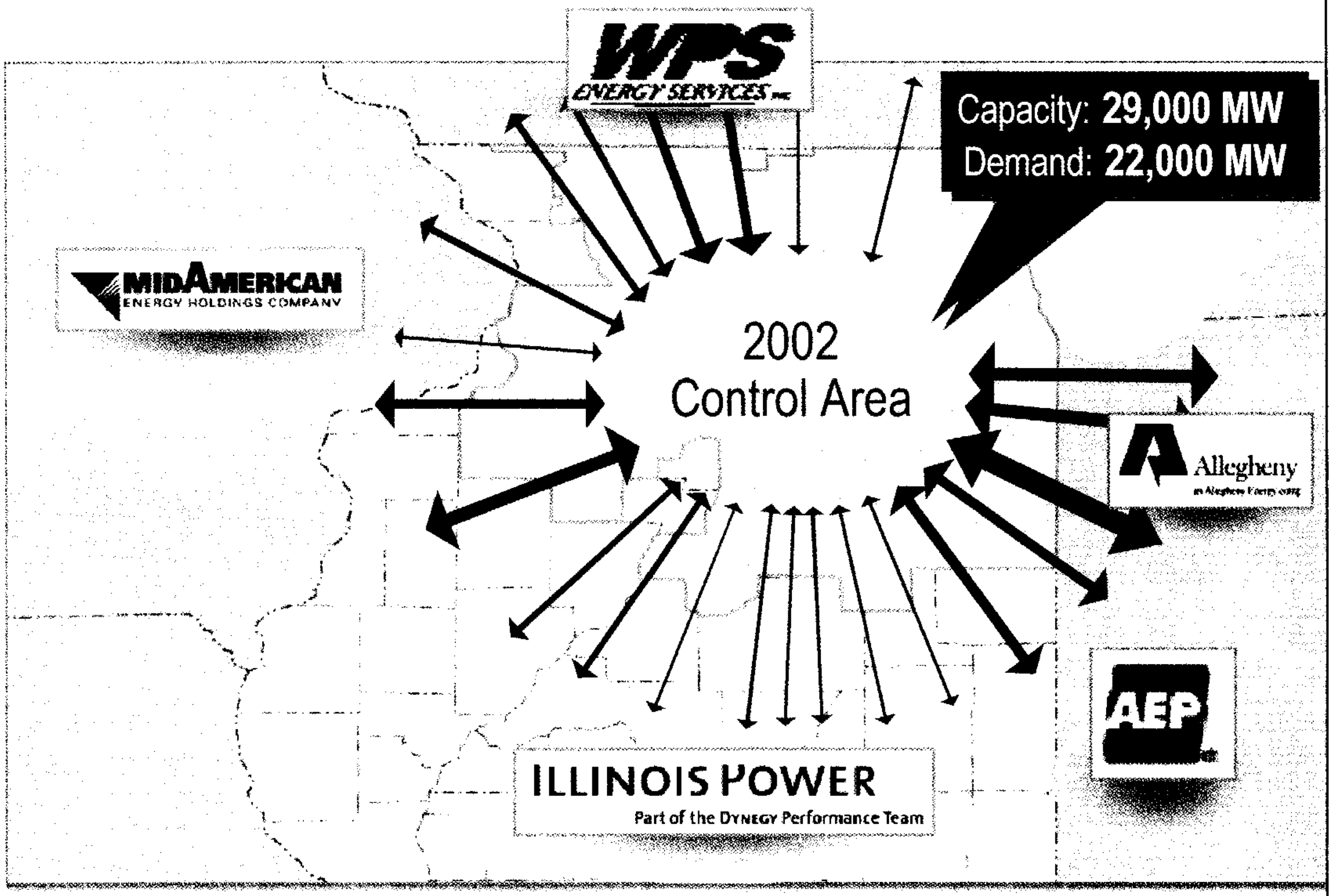
Control Area Capacity and Load

Power Supply Exceeds Demand

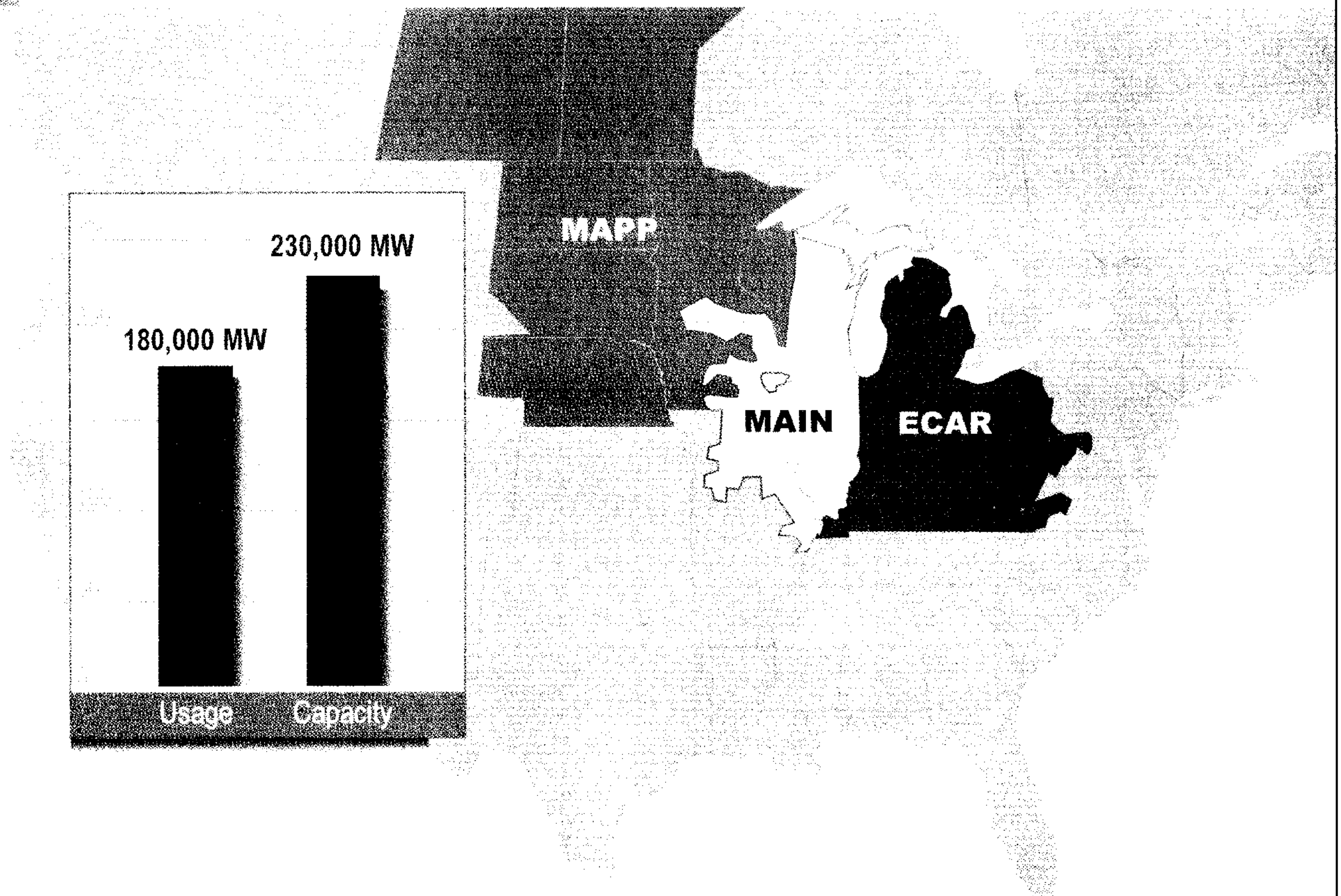


Other Energy Generators

Energy Flows In and Out of Control Area

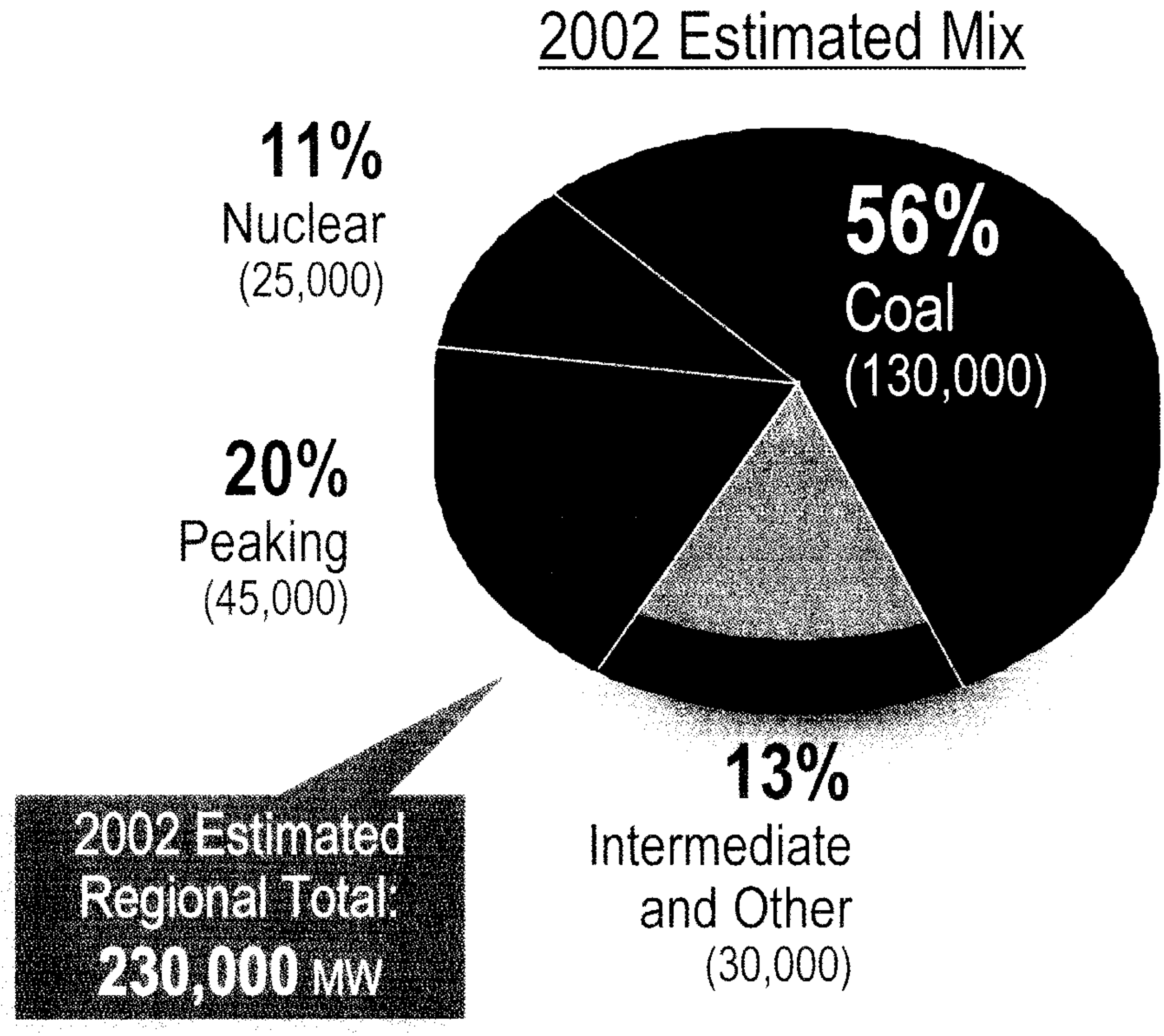


Regional Energy Capacity and Usage



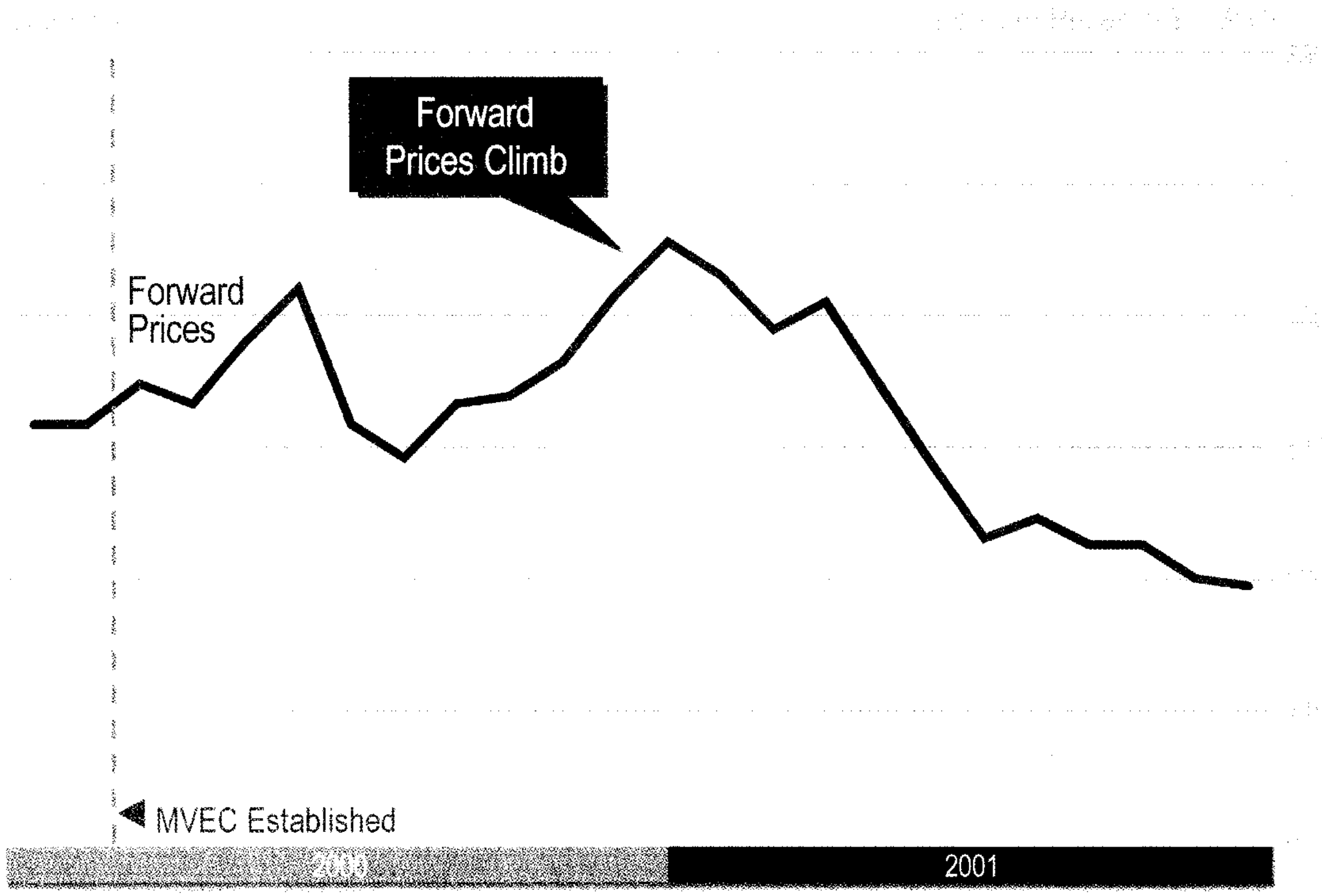
Regional Generation Mix

Type and Capacity



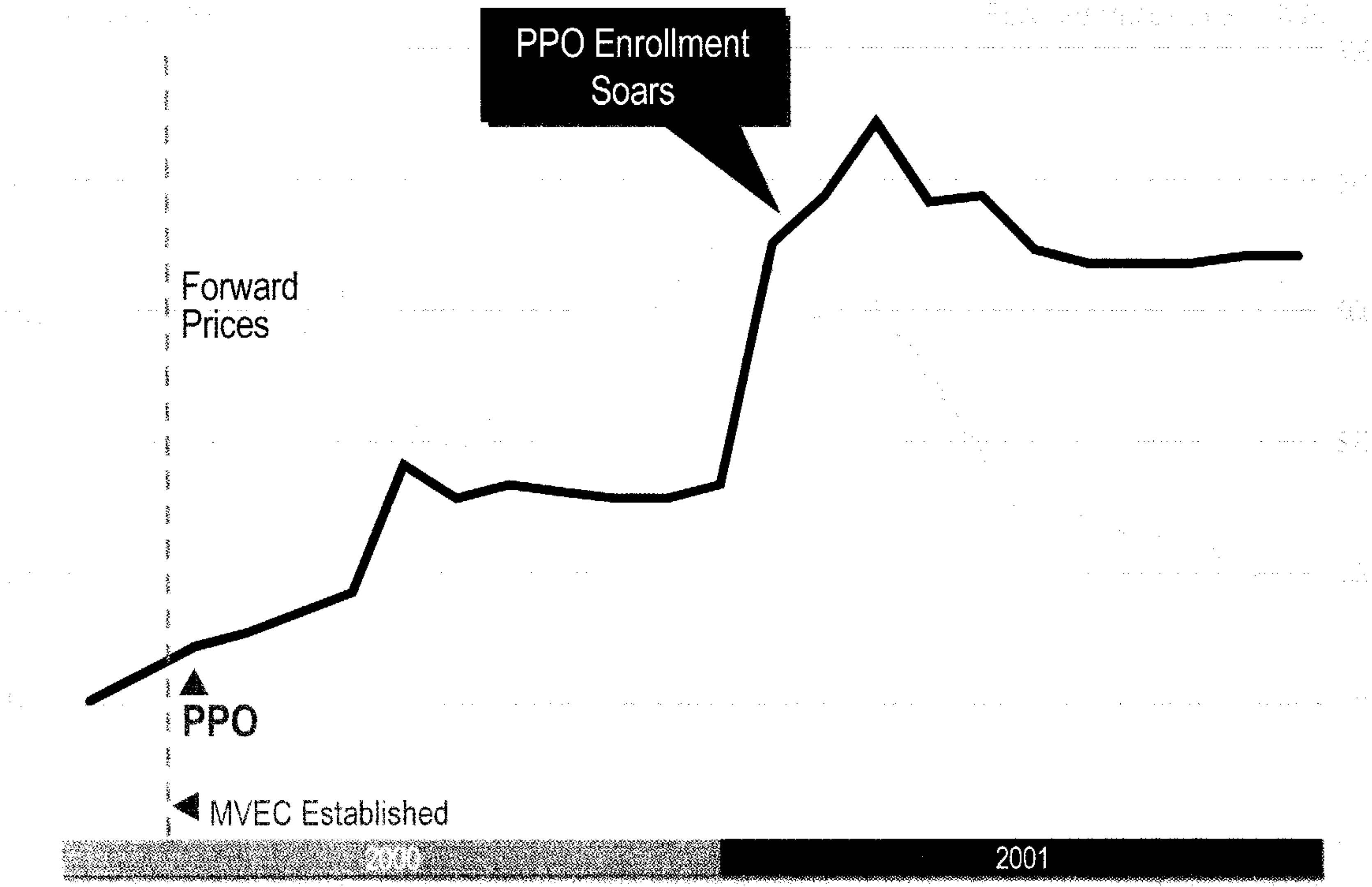
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



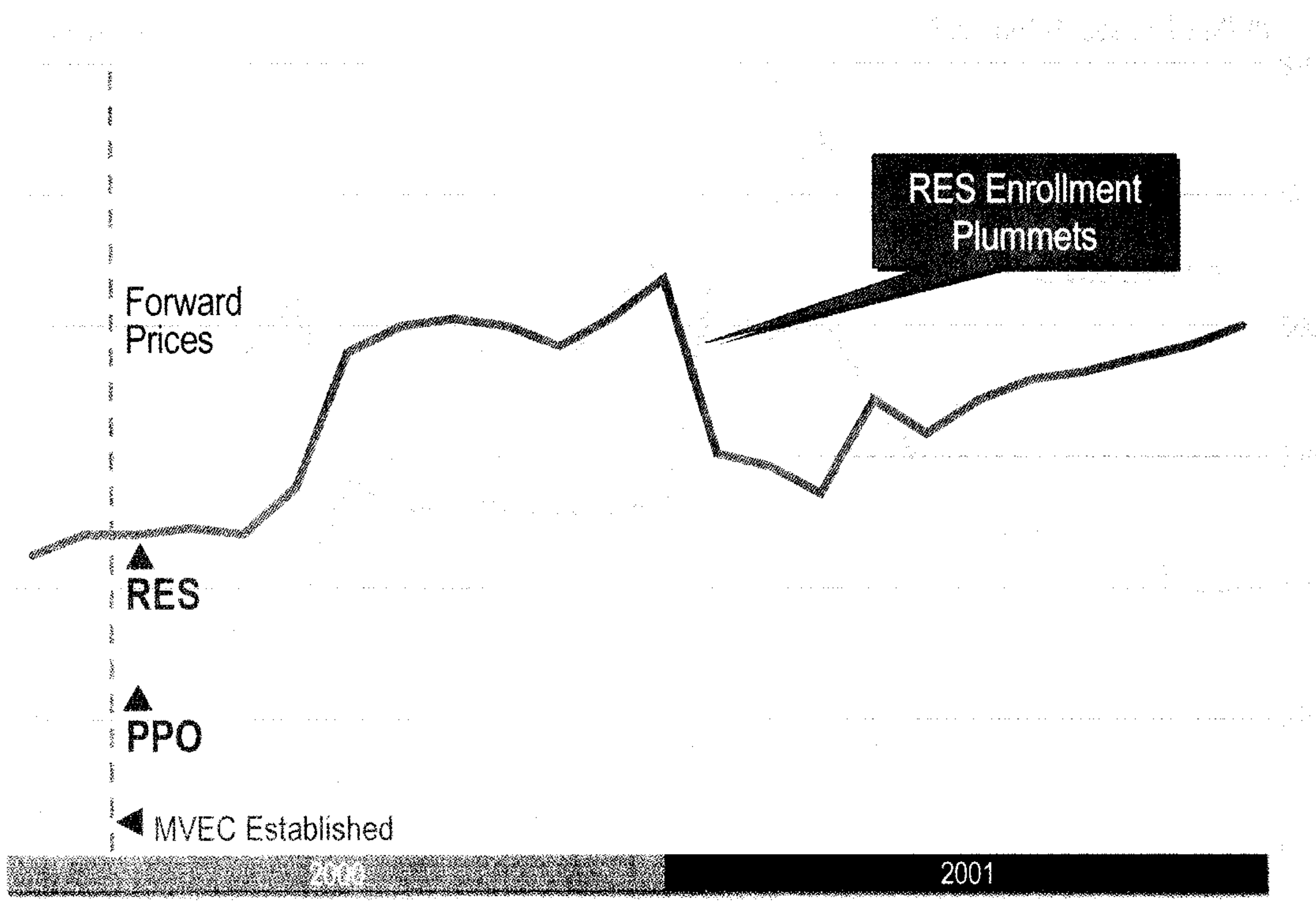
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



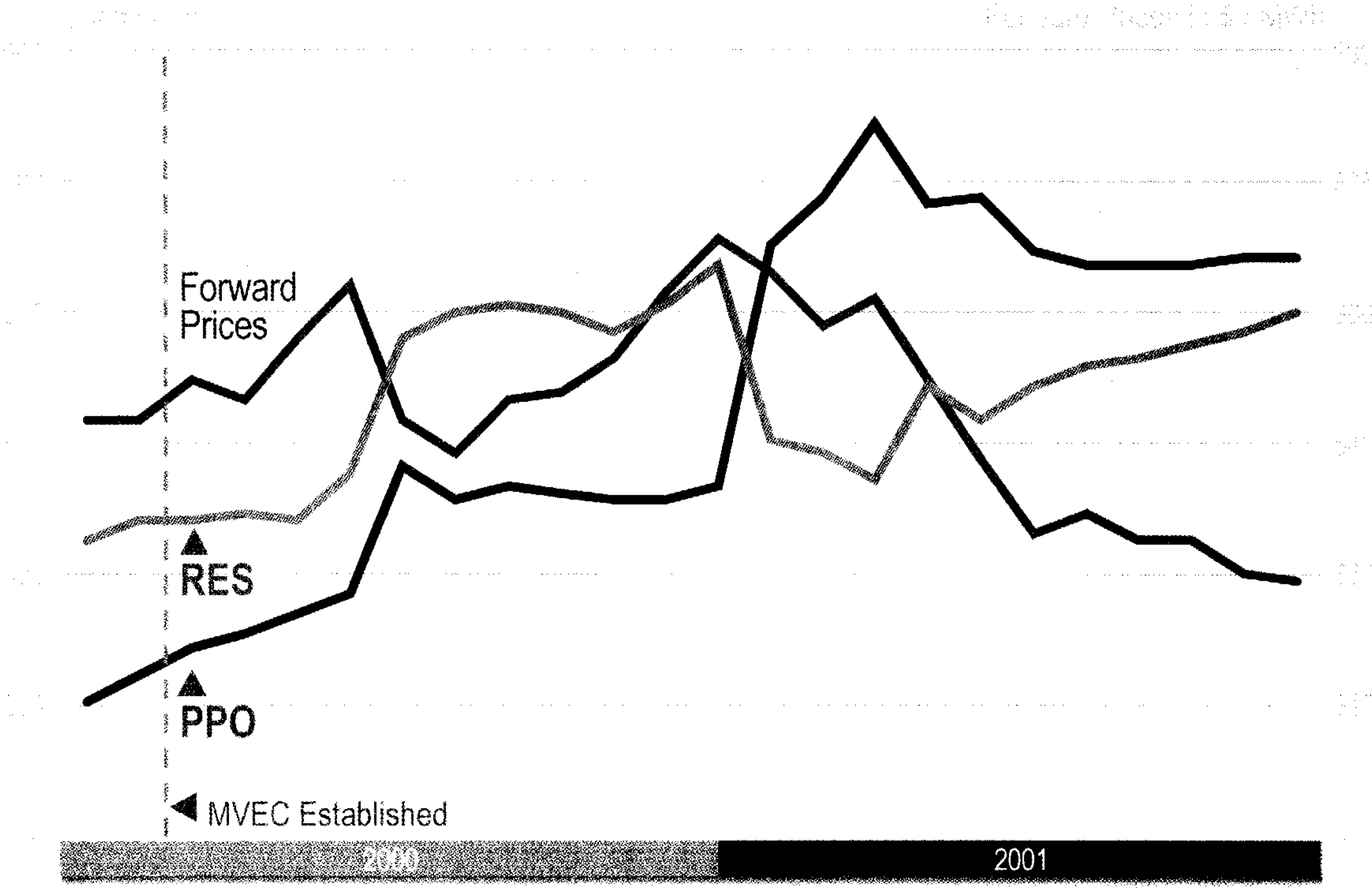
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



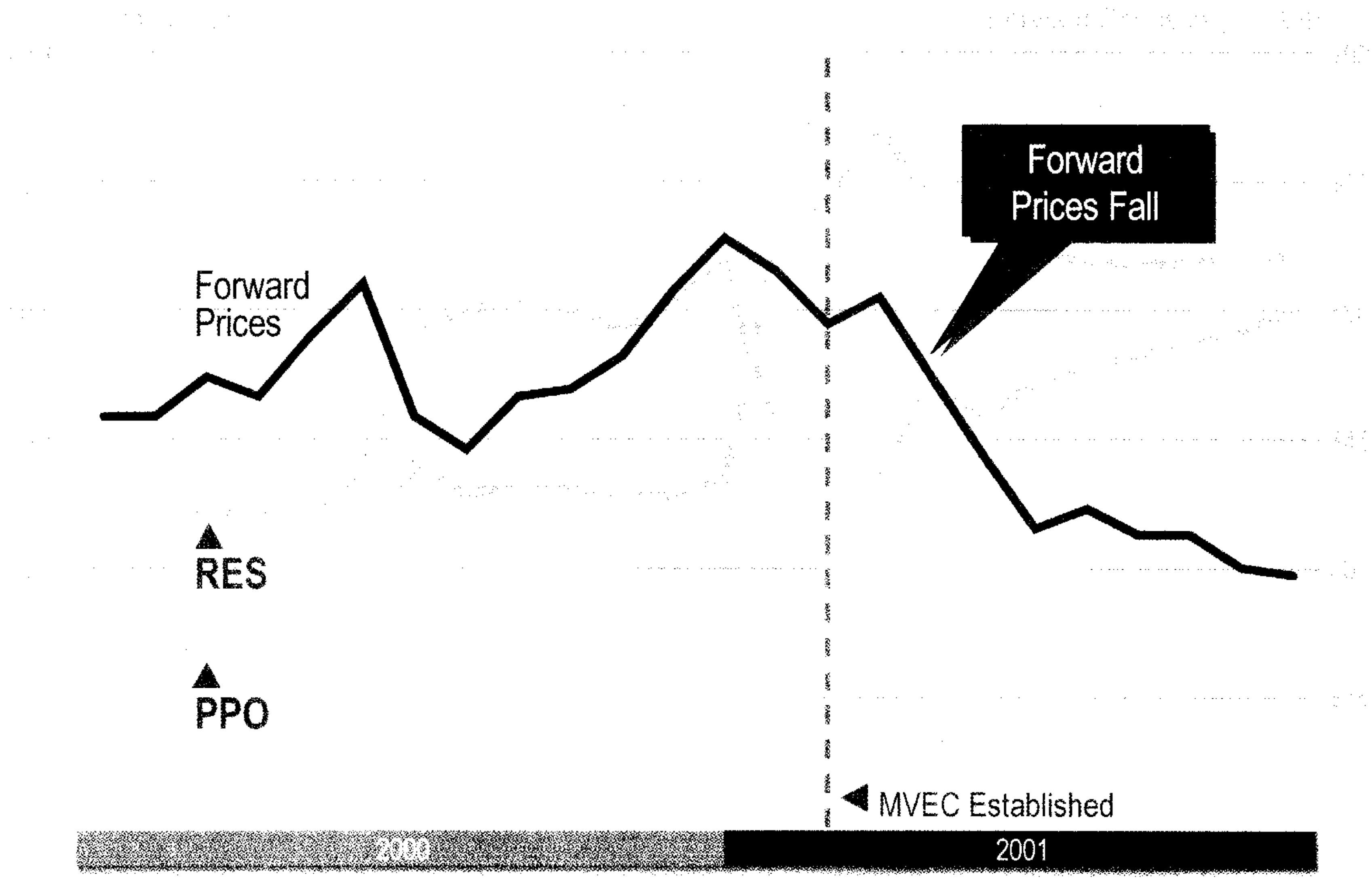
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



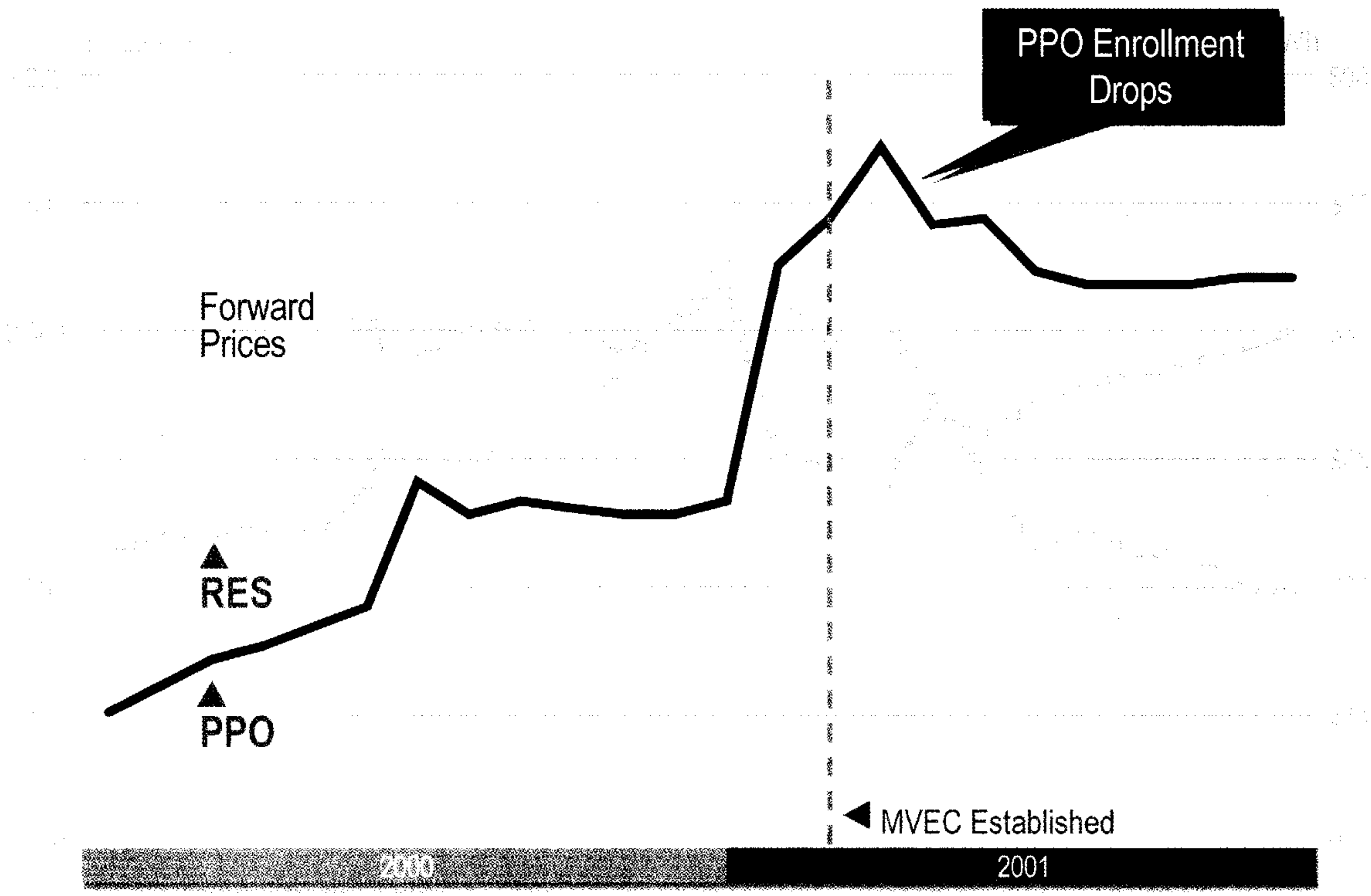
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



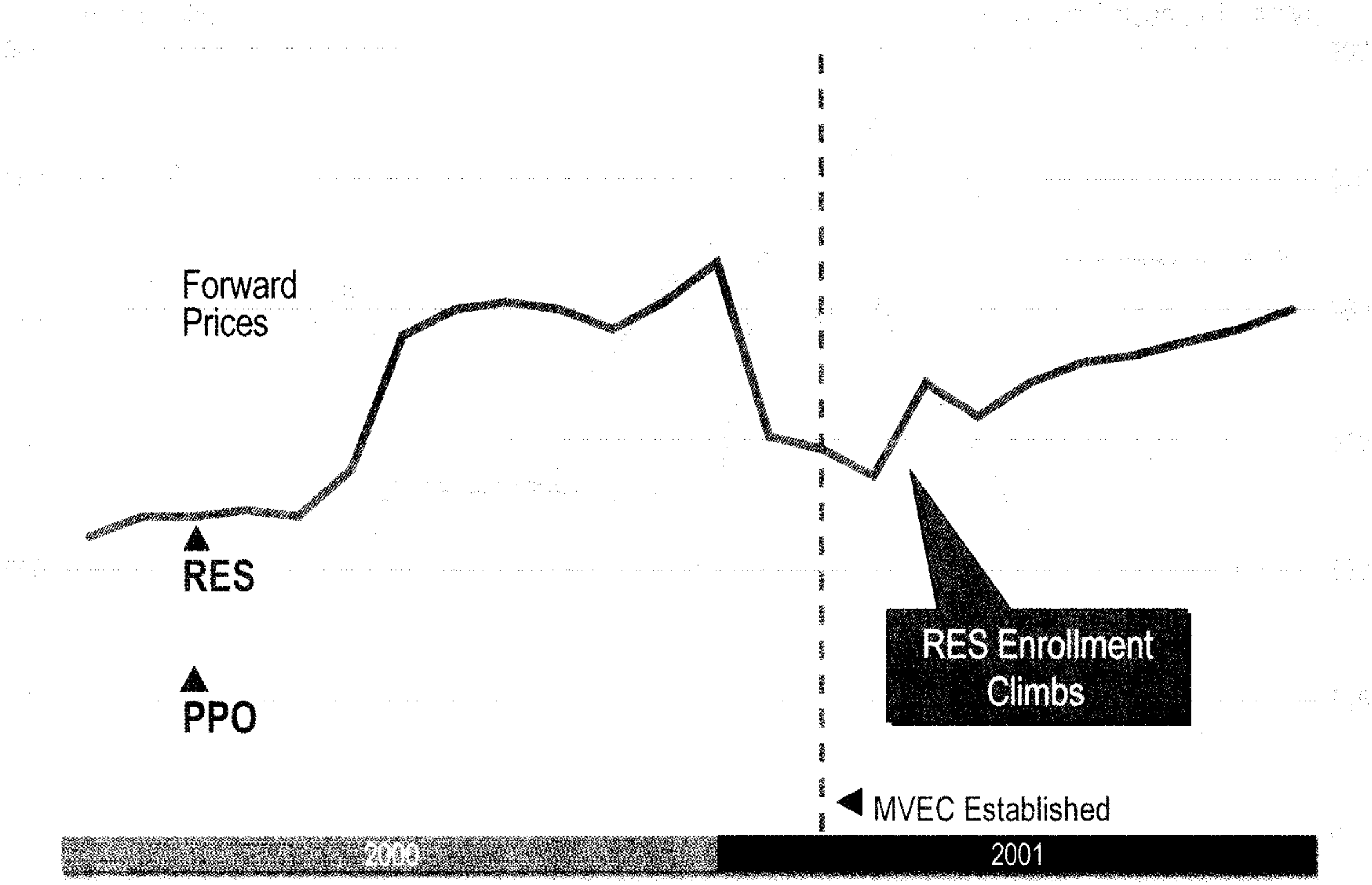
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



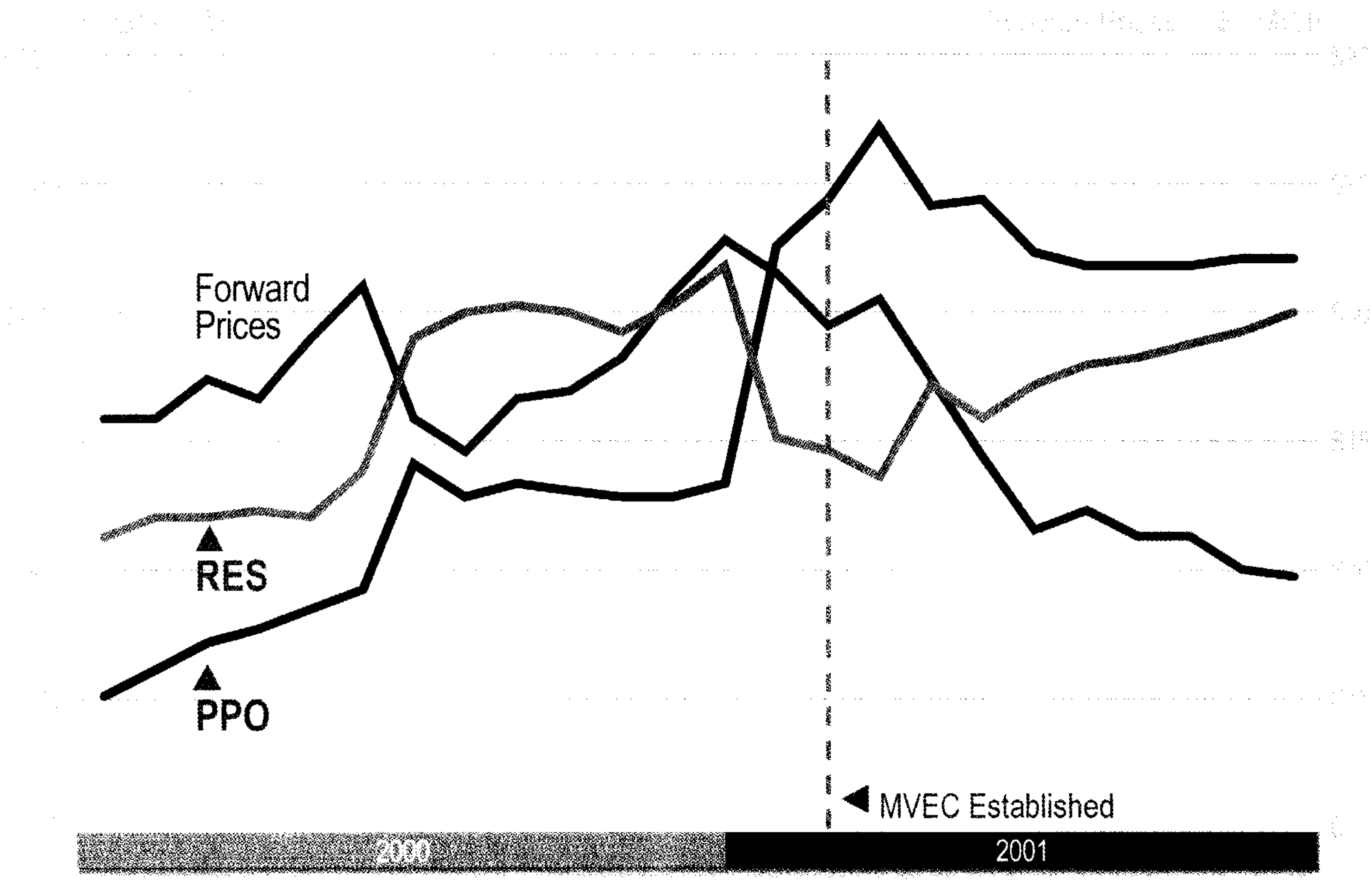
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



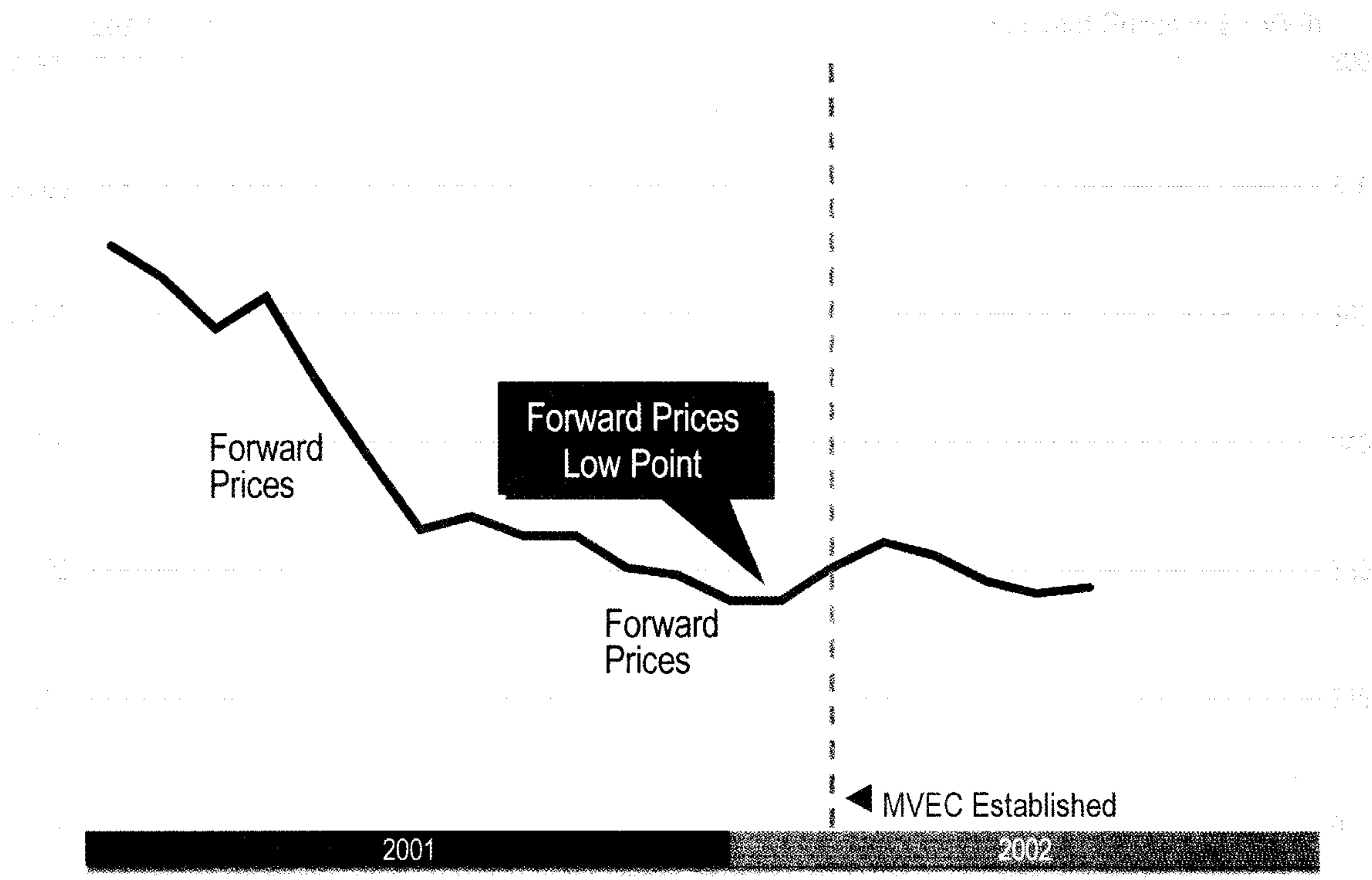
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2000-2001



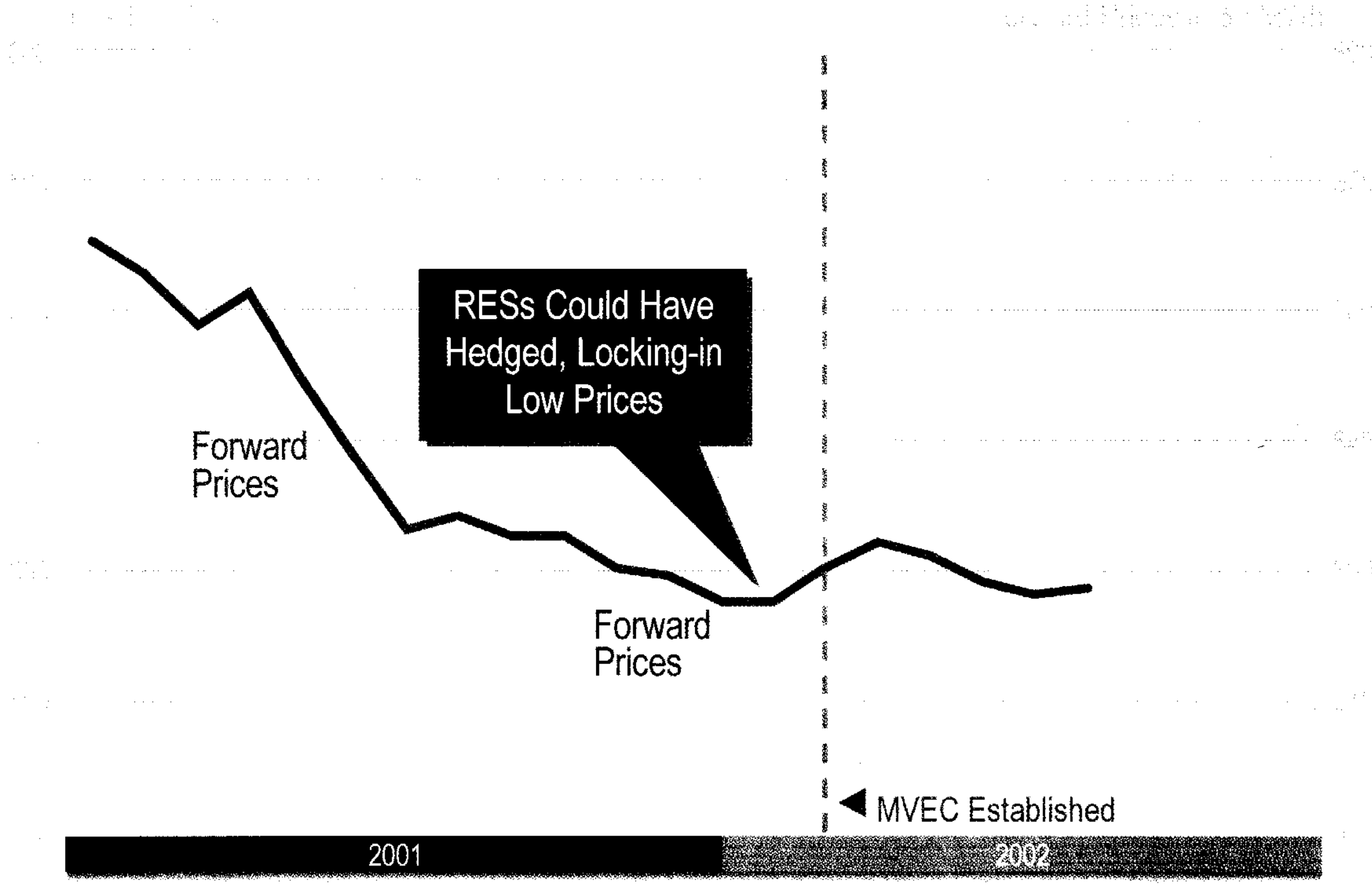
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2001-2002



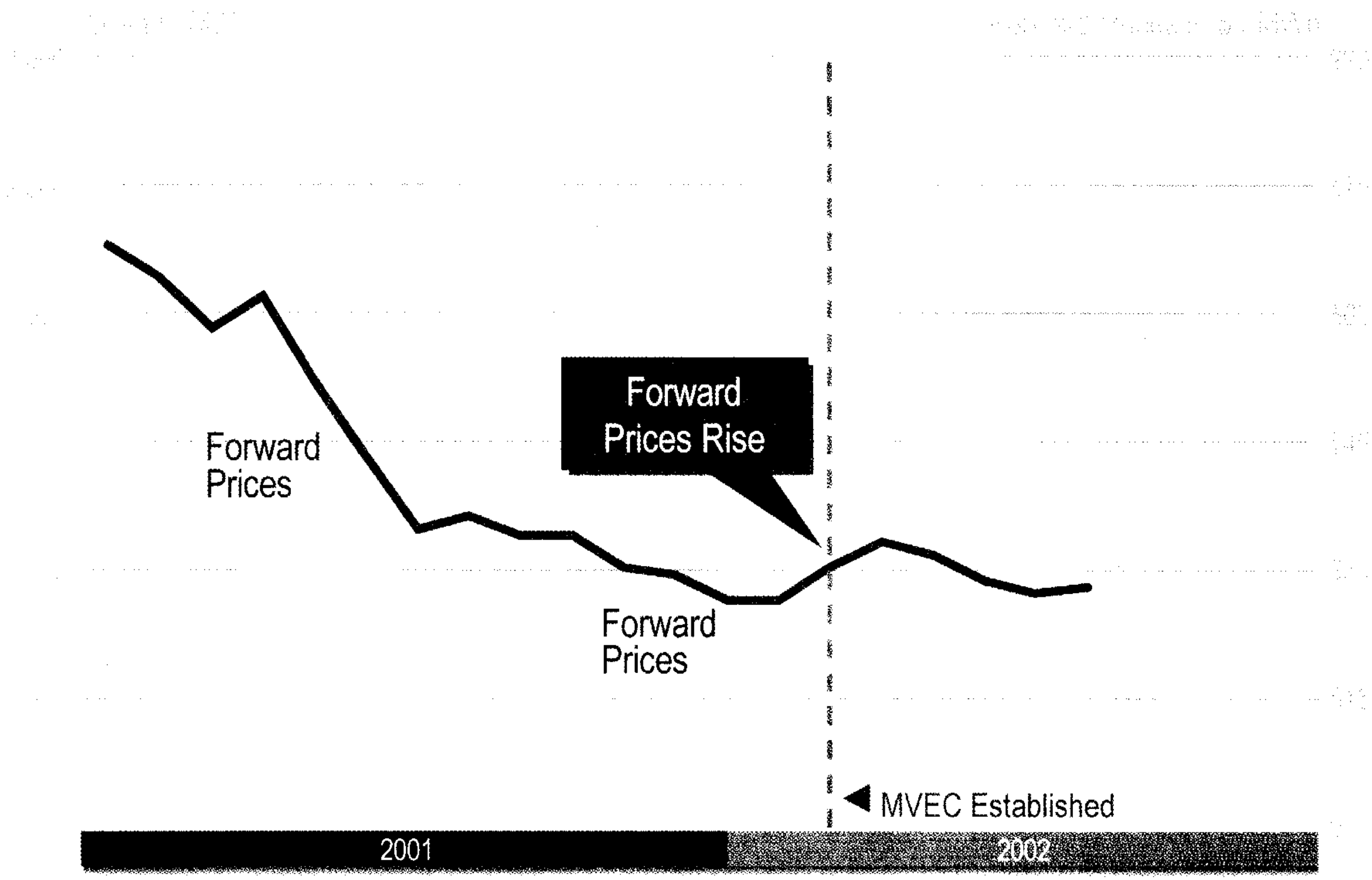
Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2001-2002



Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2001-2002



Retail Marketers Use PPO as Hedge

RES and PPO Enrollments vs. Market Price, 2001-2002